ESRI
RESEARCH
BULLETIN
DECEMBER
2021

IRELAND'S HOUSEHOLD WORKLESSNESS AND WORKING-AGE MARKET INCOME INEQUALITY

BRIAN NOLAN AND BERTRAND MAÎTRE

ESRI ECONOMIC & SOCIAL RESEARCH INSTITUTE

Ireland’s Household Worklessness and Working-Age Market Income Inequality [1]

*Brian Nolan (Institute for New Economic Thinking and Nuffield College, University of Oxford), Bertrand Maître (The Economic and Social Research Institute)

ESRI Research Bulletins provide short summaries of work published by ESRI researchers and overviews of thematic areas covered by ESRI programmes of research. Bulletins are designed to be easily accessible to a wide readership.

INTRODUCTION

International comparisons of countries with similar economic development and wealth show that Ireland’s level of income inequality is close to average when measured by household disposable income, that is, *after* social transfers and income tax. However, the picture is very different when focusing on market income, that is, *before* redistribution of social transfers and income tax. Measured this way, Ireland’s inequality level is among the highest in Europe. Ireland is also distinctive in having a relatively high share of jobless households compared to other European countries. In this article we explore the link between the two: to what extent does household joblessness explain Ireland’s relatively high market income inequality?

DATA AND METHODS

We use the EU-SILC data for 2017, a European comparative dataset on income and living conditions. We compare Ireland with five other countries representative of different labour market and welfare regimes: France, Germany, Spain, Sweden and the UK. As our interest is on the role of work for households, we focus on households of working age (here 20 to 60) and categorise them by the number of earners they contain. For each of these groups, we look at the role these different types of household play in market income inequality and how that varies across countries. We define market income as the sum of earnings, self-employment income, capital income and income from private pension plans.

[1] This Bulletin summaries the findings from: Nolan, B. and Maître, B., “Does Household Worklessness Explain Ireland’s High Working-Age Market Income Inequality?”, *The Economic and Social Review, Vol. 52, No. 4 Winter 2021*, Available online: https://www.esr.ie/article/view/1981

* brian.nolan@spi.ox.ac.uk

We use different measures of income inequality, allowing a decomposition of inequality by number of earners as well as between and within these groups with different number of earners. In addition to the Gini coefficient, which is perhaps the most commonly used overall measure of income inequality, we use three other measures, the mean log deviation (MLD) or GE(0) measure; the Theil index or GE(1) measure; and half the squared coefficient of variation or GE(2).

RESULTS

Decomposition by income source shows that across all six countries, labour income accounts for between 87% and 96% of overall market income inequality. Compared to other countries, Ireland is quite distinctive in having 12% of working age households with no earners (compared with almost 9% in the UK and less than 6% in the other selected countries). Decomposition of inequality by groups defined in terms of number of earners shows that inequality within these groups is the main contributor to overall inequality. However, for Ireland, between-group inequality makes a larger contribution to overall market income inequality than elsewhere. In other words, while the difference in how much people earn is the biggest factor, the number of people in the household who have a job plays a larger role in Ireland than it does elsewhere.

Finally, in order to assess the impact of the high share of jobless households in Ireland on market income inequality, we simulate a change in the share of jobless households in all six countries across three scenarios. One is where the share of jobless households is set to the EU28 average, another sets it to the lowest share seen in our six countries (France) and the third sets it to the highest observed share (Ireland). The impact on Income inequality is then assessed with our alternative inequality measures. With the Mean Log Deviation measure, setting joblessness in Ireland at the EU28 average level reduces Ireland's level of income inequality by one third and setting it at France's low level reduces it by almost half, with both simulations narrowing the income inequality gap with the other five countries substantially, though not eliminating it. The reduction in income inequality is more modest with the other two summary measures of income inequality.

CONCLUSIONS

Jobless households contribute substantially to Ireland's distinctively high level of income inequality. However, household joblessness remains only part of the explanation. The role played by the high dispersion of labour income among one and two earner households also merits further investigation. From a policy perspective, our results highlight once again the need to tackle household joblessness. This is a difficult task. Household joblessness is the product of a complex interaction between individuals, households and the environment in which they live, requiring a wide range of policy interventions at each of these three levels, including job and training support, affordable childcare provision and a variety of developmental supports for deprived areas in particular.

Whitaker Square,
Sir John Rogerson's Quay,
Dublin 2
Telephone **+353 1 863 2000**
Email **admin@esri.ie**
Web **www.esri.ie**
Twitter **@ESRIDublin**

ESRI ECONOMIC & SOCIAL RESEARCH INSTITUTE